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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

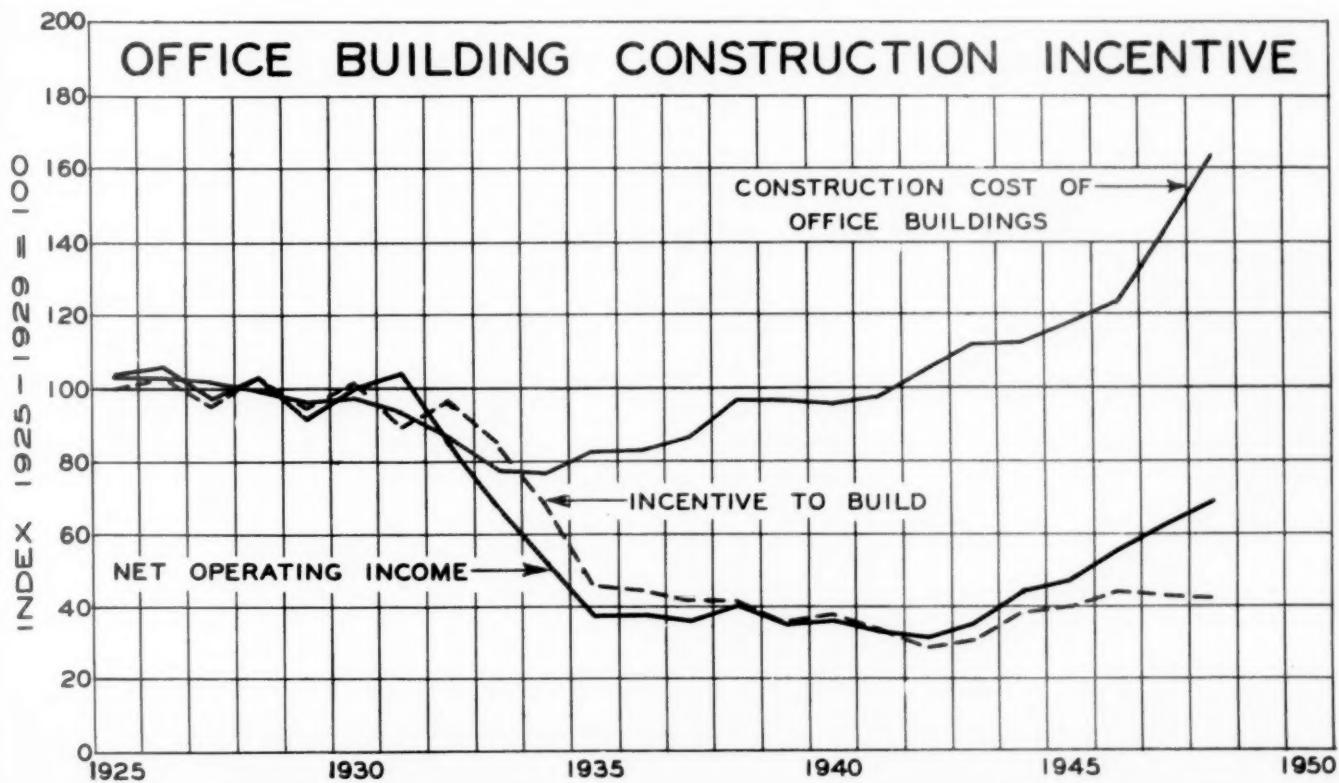
INCENTIVE FOR OFFICE BUILDING CONSTRUCTION

NEW building of any type results when it appears to the promoter or prospective builder that the income which the property will earn will be sufficient to pay an adequate return on the cost of construction. When this relationship of construction costs to net income is unfavorable, new building cannot be stimulated except by some type of subsidy.

During the twenties the relationship of net income to construction cost was favorable and toward the end of that period the greatest volume of building was done on various types of income properties. In the period from 1927 to 1931 more office building space was constructed than has ever been built before in the same length of time.

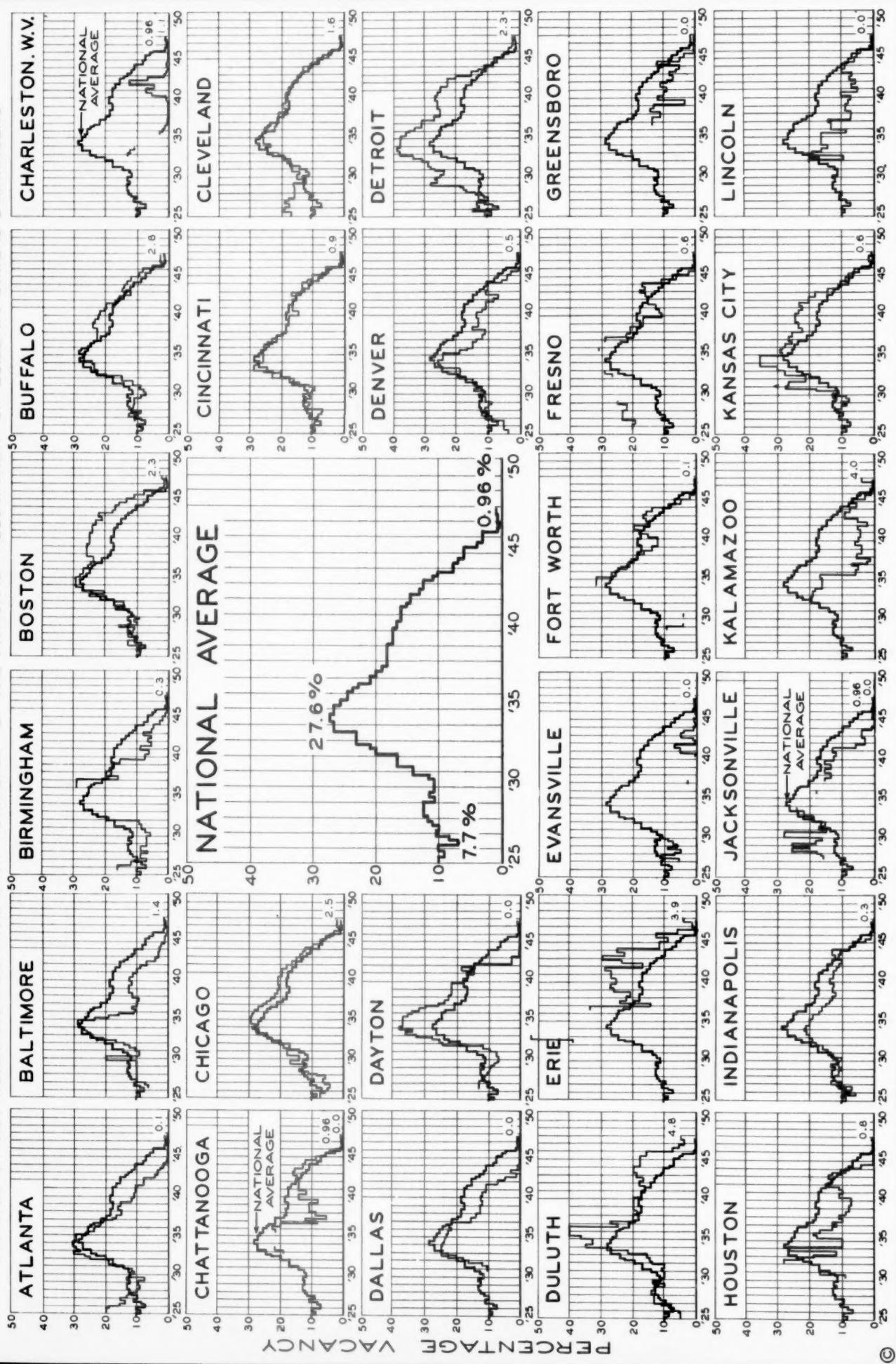
A large percentage of this building was financed almost 100 per cent with bonds and mortgages which generally cost the project around 8 per cent. This was accomplished through a series of mortgage charges and discounts. A comparable cost on similar projects today would probably be around 5-1/2 per cent.

(cont. on page 443)



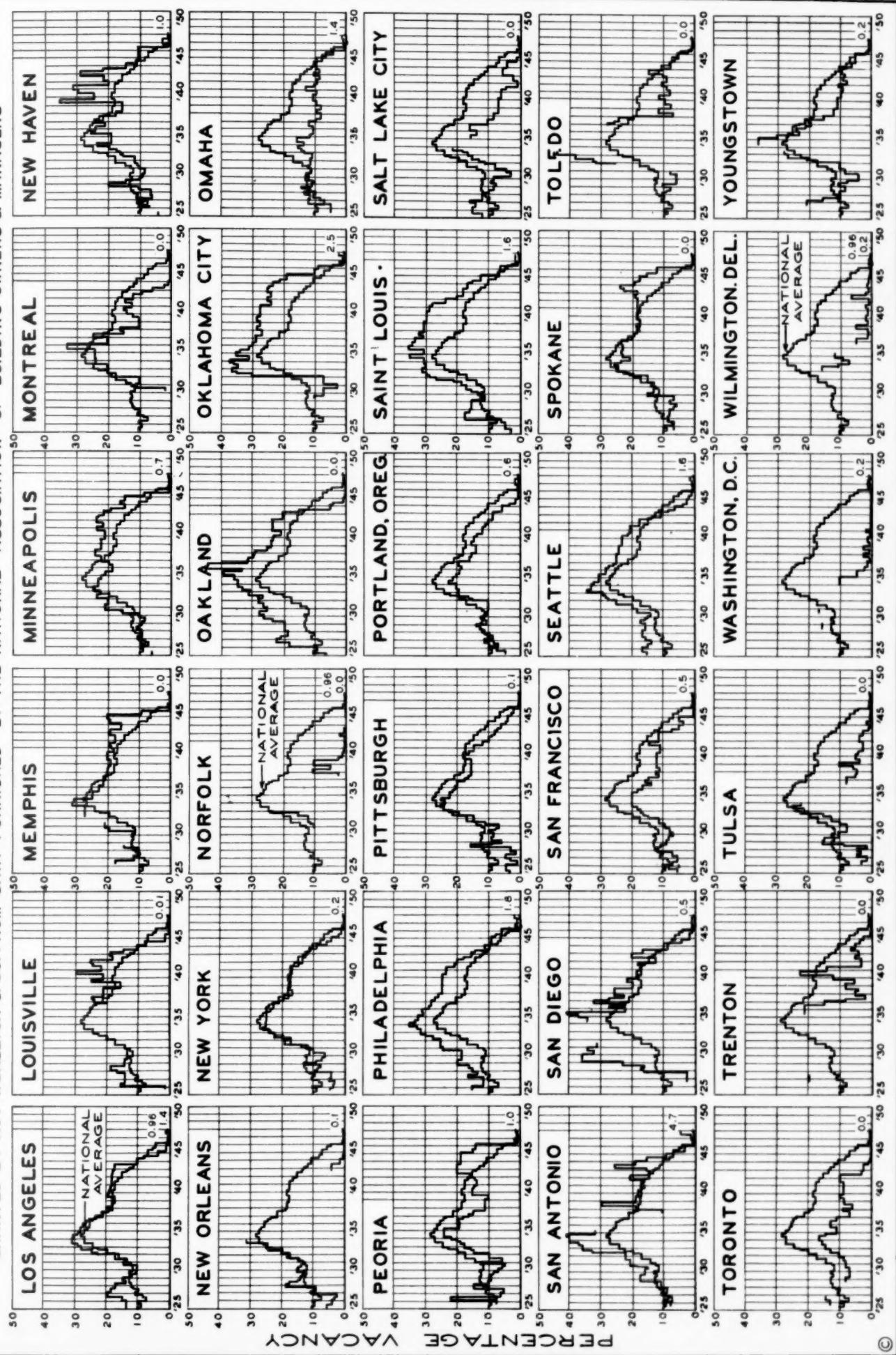
OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

CHARTED BY ROY WENZLICK & CO. FROM DATA FURNISHED BY THE NATIONAL ASSOCIATION OF BUILDING OWNERS & MANAGERS



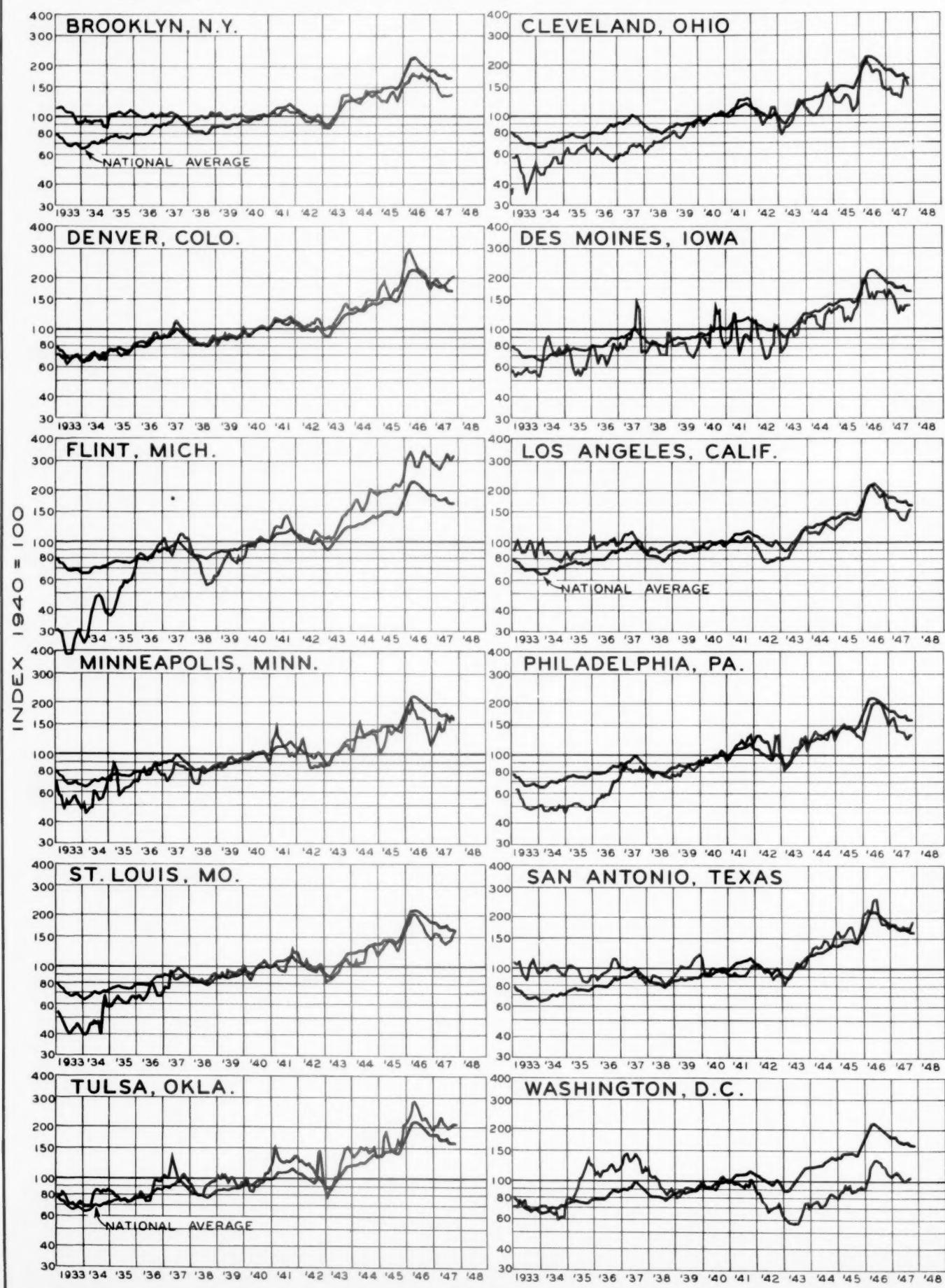
OFFICE BUILDING VACANCY IN PRINCIPAL CITIES

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REAL ESTATE TRANSFERS IN PRINCIPAL CITIES

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INCENTIVE FOR OFFICE BUILDING CONSTRUCTION

(cont. from page 439)

In an attempt to measure the strength of present incentives for new building, the chart at the bottom of page 439 was constructed. This chart shows the relationship between net operating income of existing office buildings and the cost of replacing these buildings. The period from 1925 through 1929 was used as a base in computing the indexes for both net income and replacement cost, as these were years in which the large volume of building being done would clearly indicate that the ratios were favorable.

The income figures used in this report are those compiled by the National Association of Building Owners and Managers on principal office buildings throughout the United States. The replacement cost figures are compilations prepared by our own organization.

A study of this chart will show that net income declined rapidly during the depression of the thirties and has made to date only a moderate recovery. It will also show that while construction costs fell during the thirties, they have risen during the recovery period at a far more rapid rate than has net income.

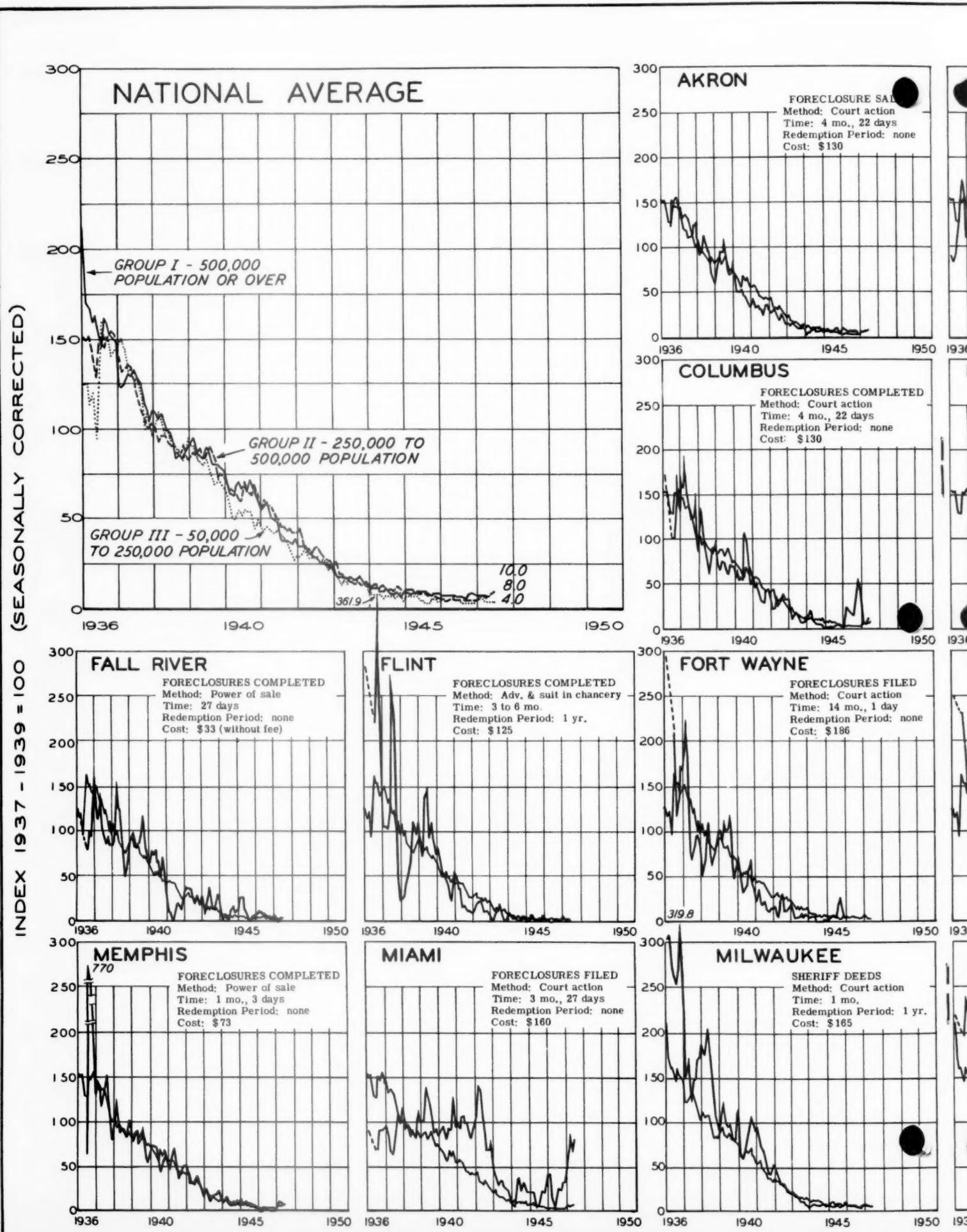
The result has been that the ratio of net income to construction cost has gone quite low and were these two elements the only factors in determining the strength of the incentive at the present time, that incentive would be only 42 per cent high enough to stimulate the construction of new office buildings. In order to return this relationship of the late twenties, the following changes in replacement costs and in net operating income would be necessary:

If replacement cost decreases	Net operating income must increase
40%	40%
30	67
20	90
10	115

We believe, however, that the difference in financing costs has had a very definite effect on incentives. If a large part of the building of the twenties was financed almost 100 per cent (and we believe it was), at an effective interest loading of 8 per cent, and if similar projects could be developed today at 5-1/2 per cent, probably present net rentals form an incentive of from 60 to 65 per cent of what would be necessary to stimulate any volume of new building and, as a result, relatively little new office building is being done.

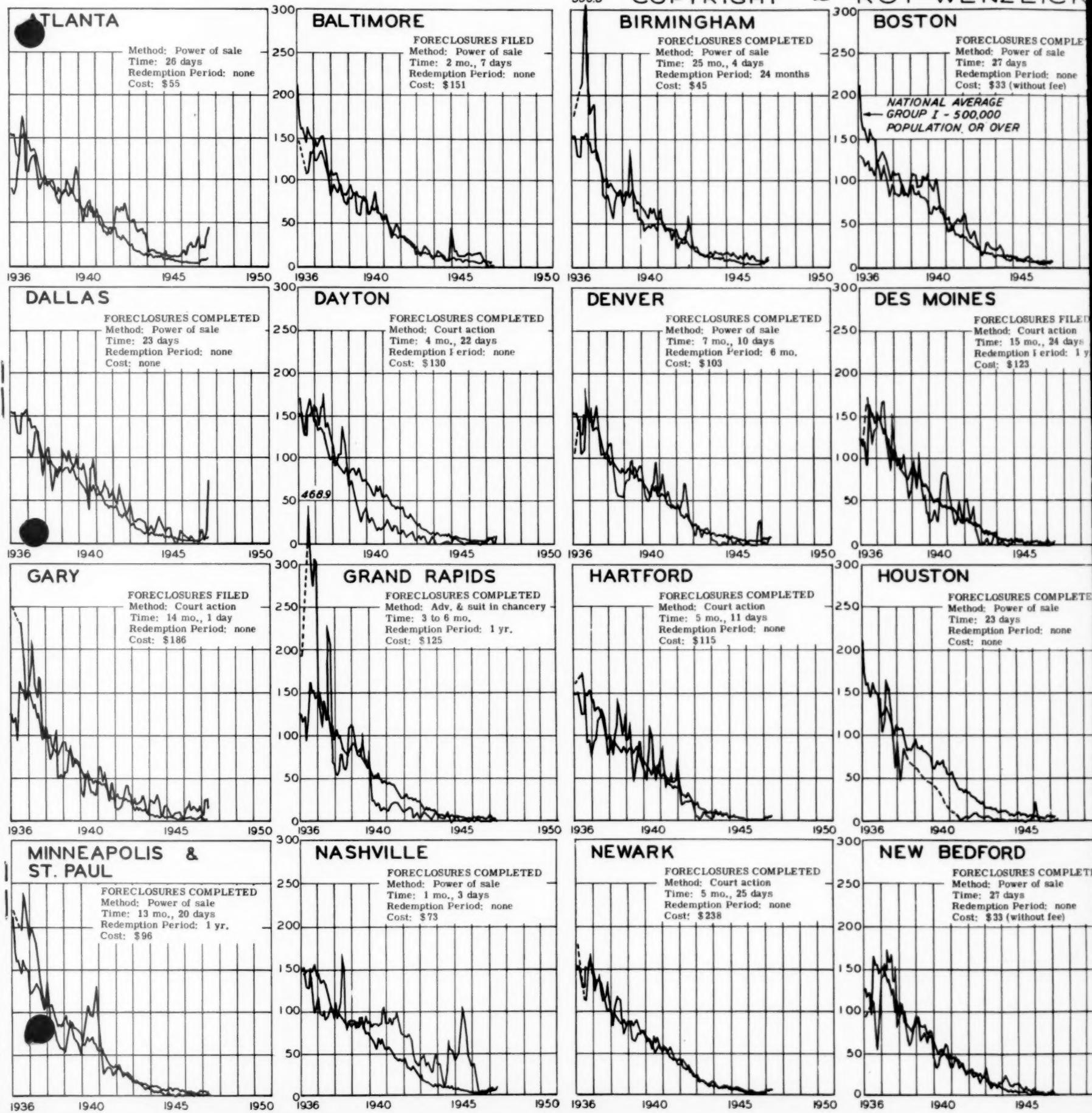
Historically, office building construction has always taken place toward the tail end of the big real estate booms of the past. In the first part of a real estate boom the great activity is always in residential properties. Only after the boom has continued over a period of years do space stringencies develop in the office building field, with rapidly rising rents. Even then leases delay the rise. By the time that net income becomes high in relationship to construction costs, the boom is near its end.

It seems to us that the same thing will occur again. When we start building office buildings in quantity a few years hence, it is time to run for cover.



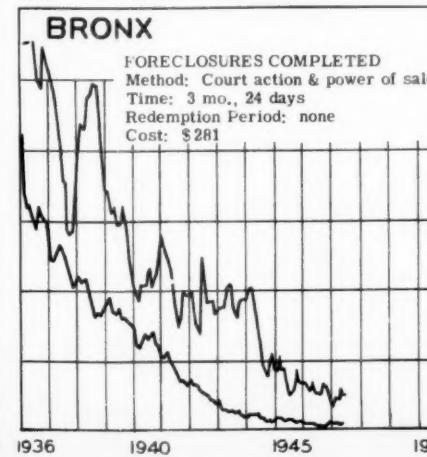
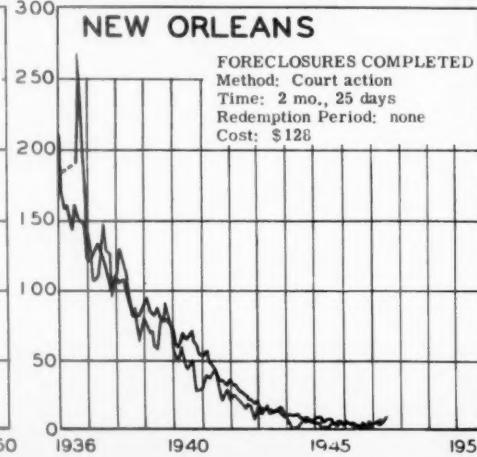
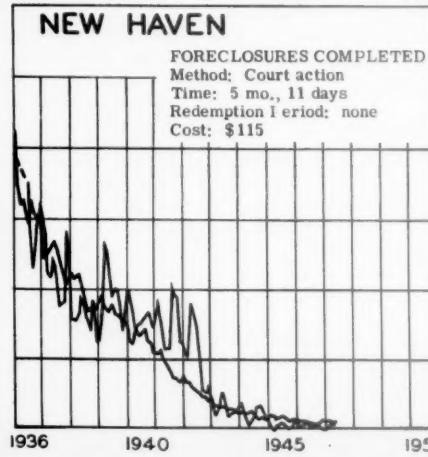
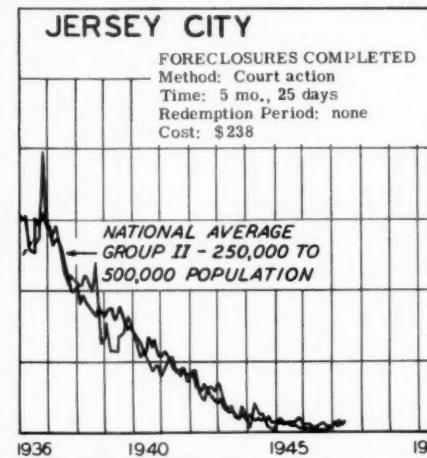
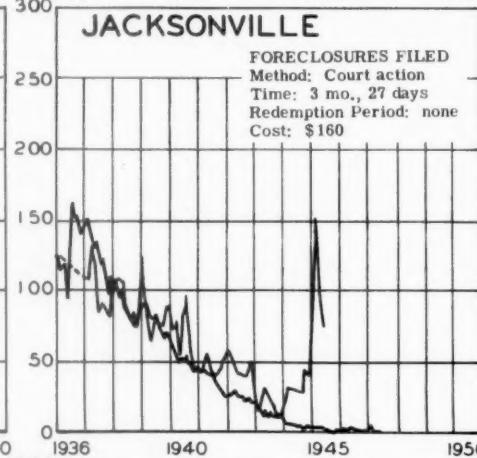
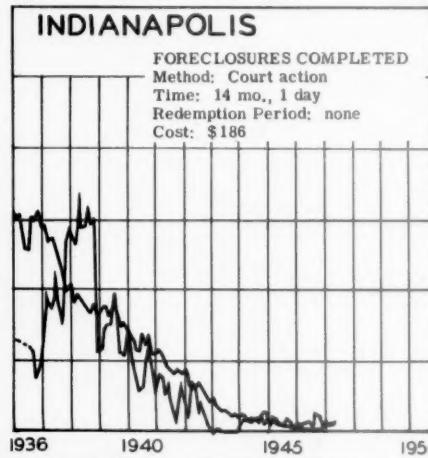
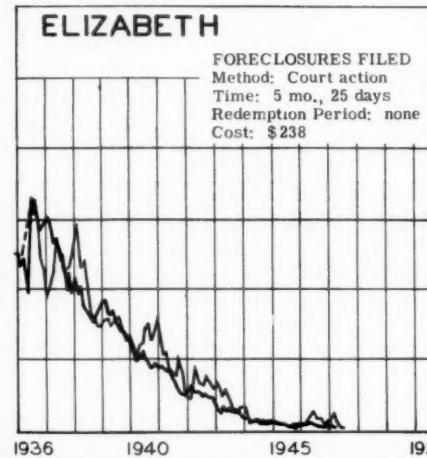
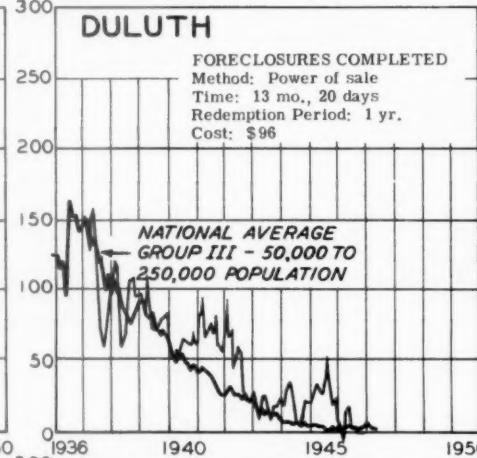
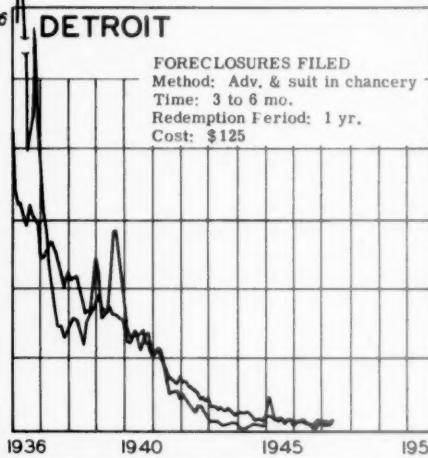
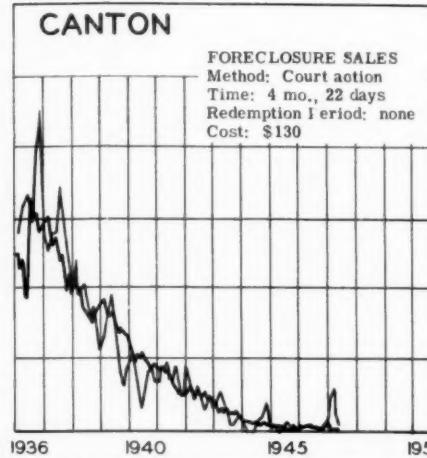
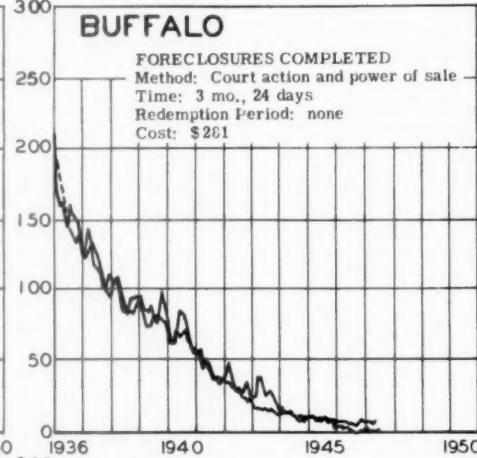
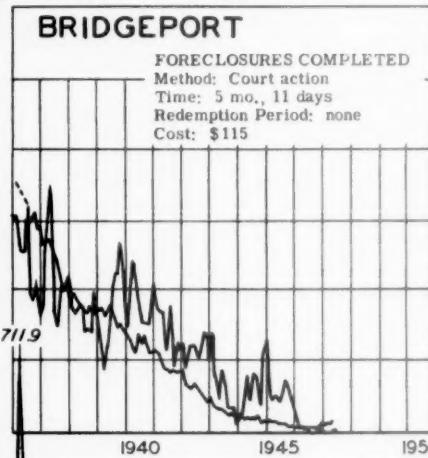
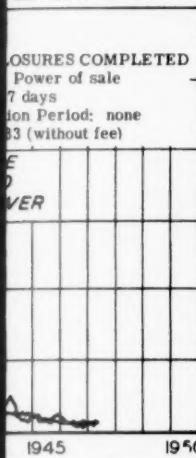
FLUCTUATIONS IN THE FORECLOSURE

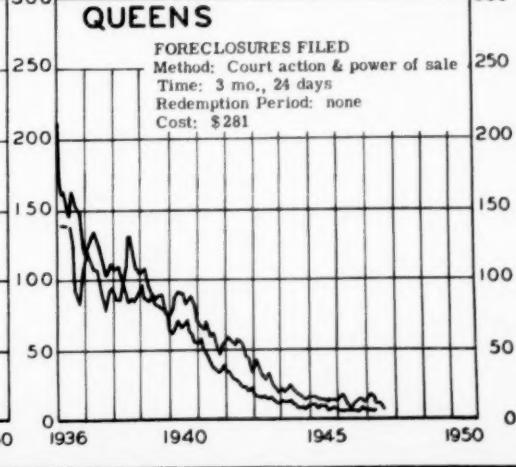
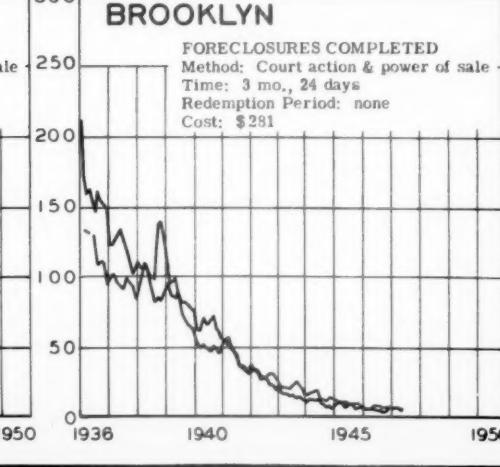
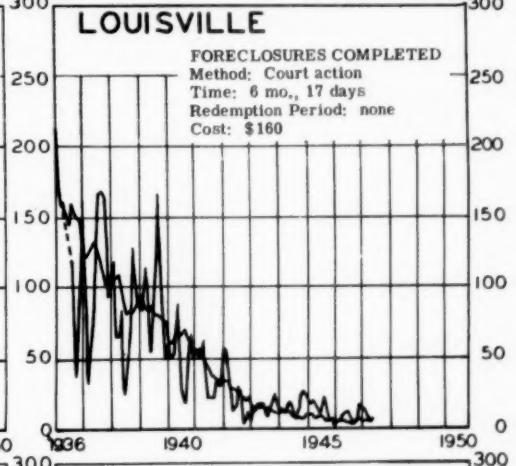
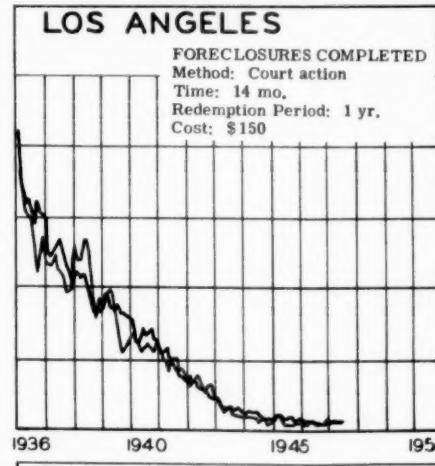
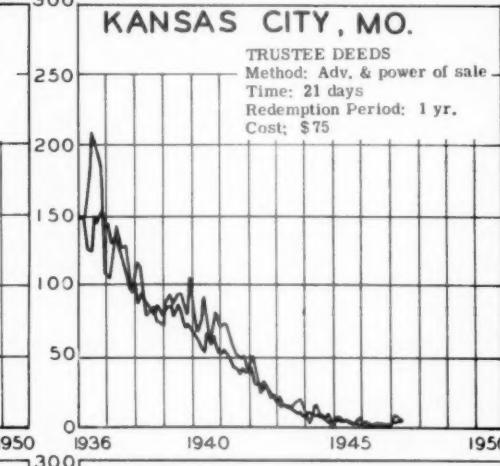
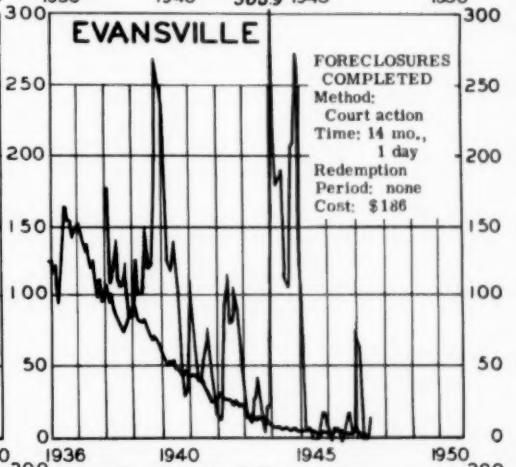
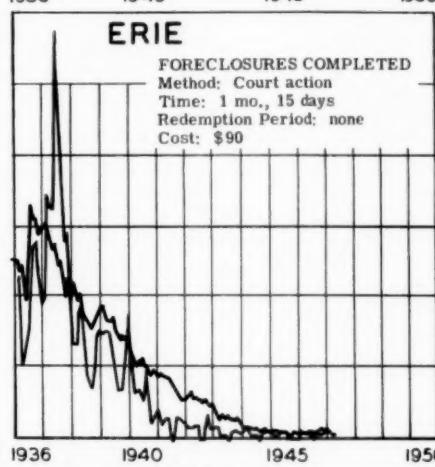
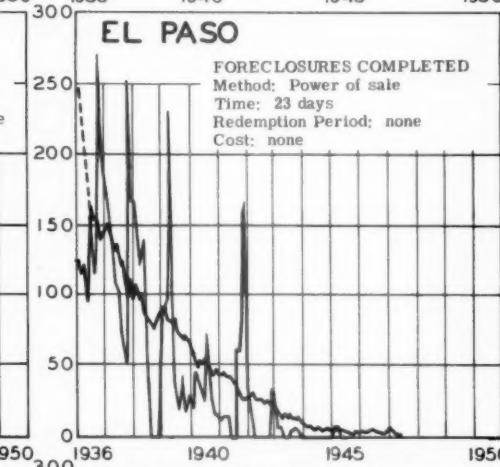
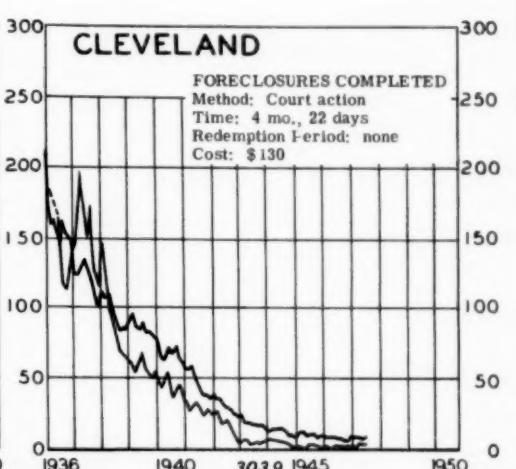
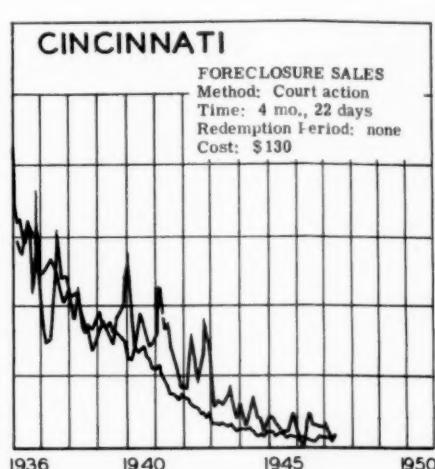
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FORECLOSURE RATE BY PRINCIPAL CITIES

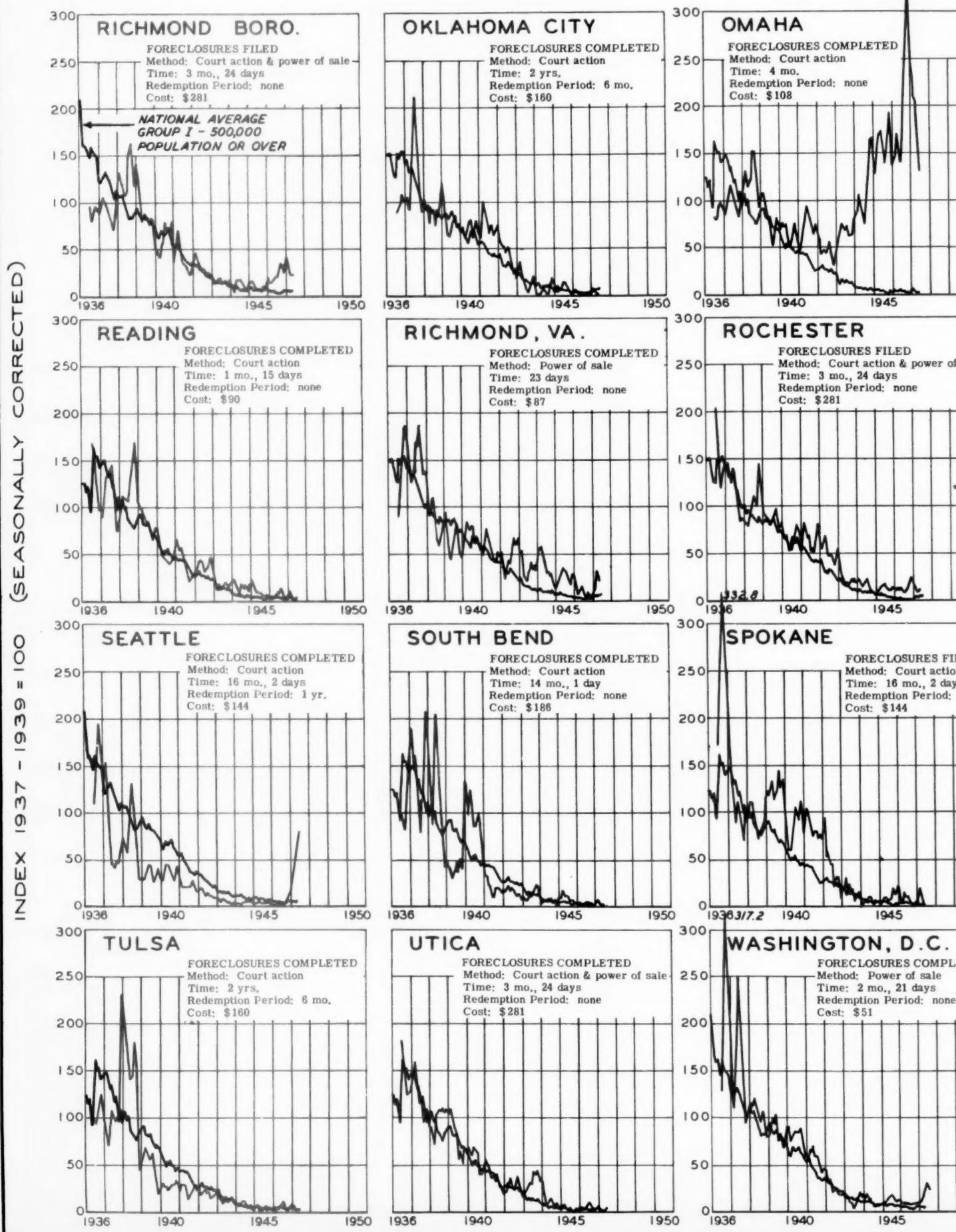
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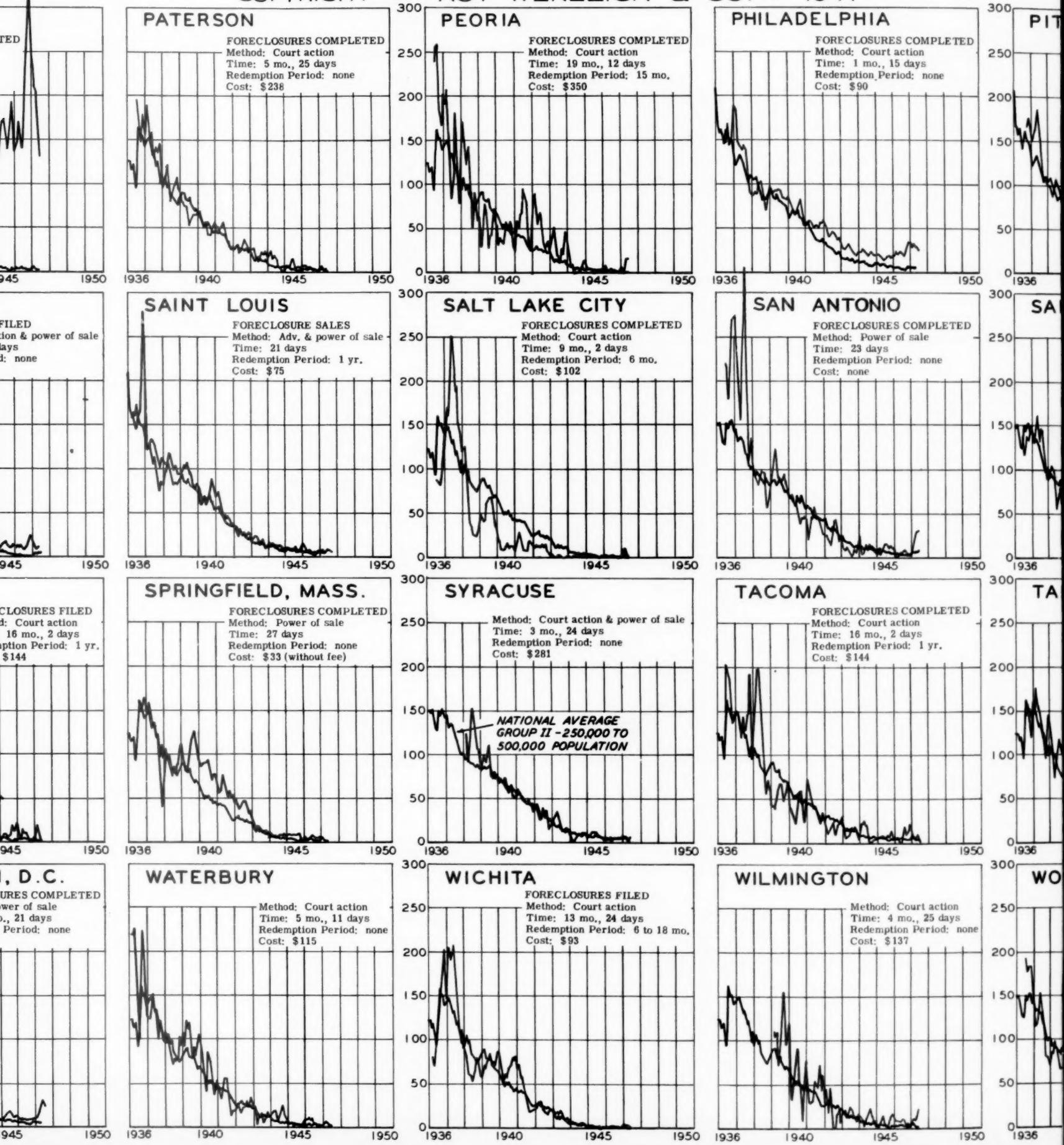
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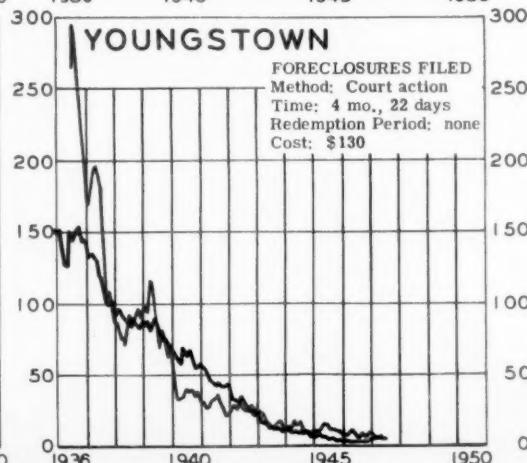
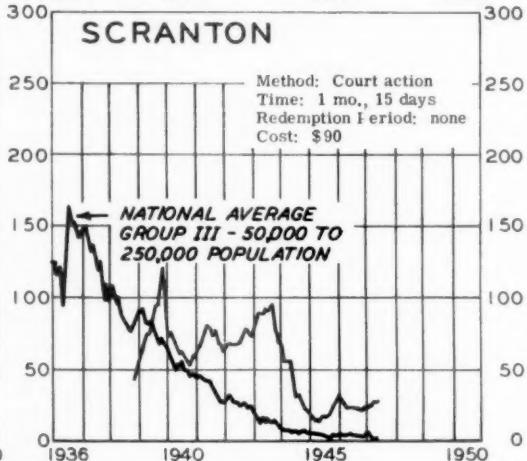
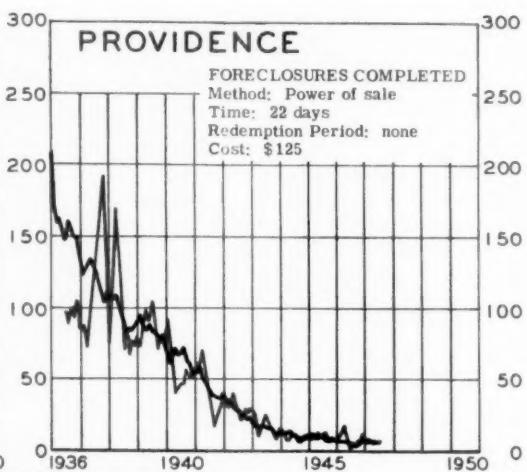
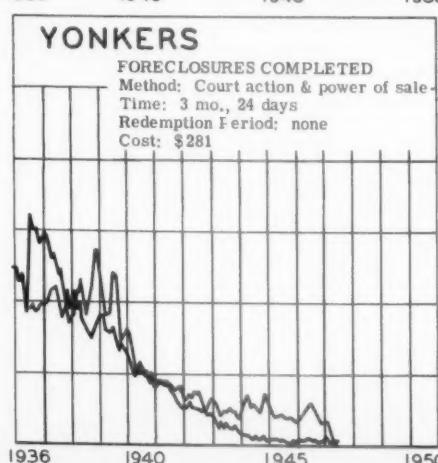
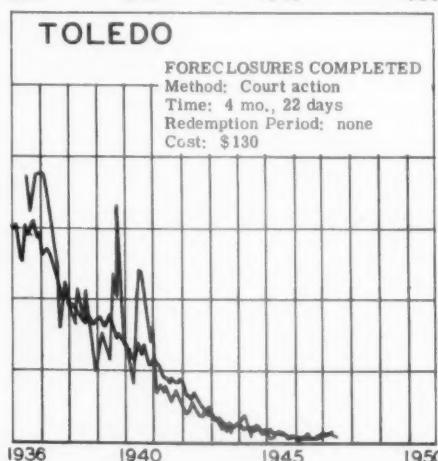
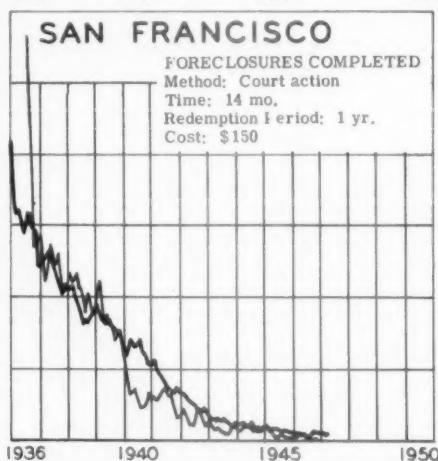
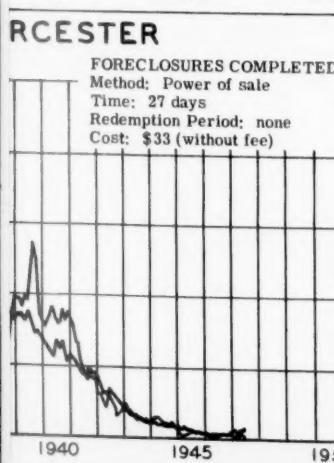
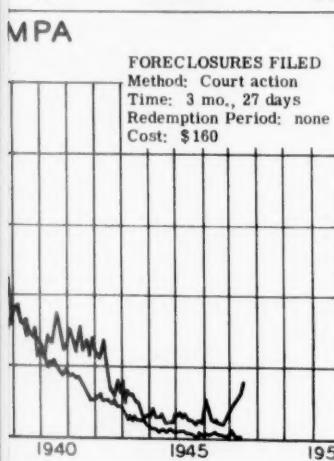
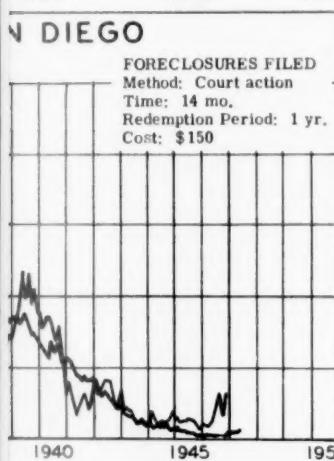
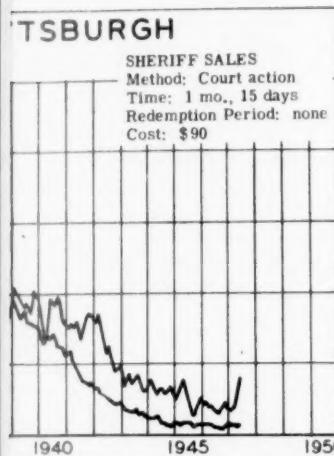


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PRINCIPAL CITIES



(SEASONALLY CORRECTED)

INDEX 1937 - 1939 = 100

FORCLOSURE FLUCTUATIONS IN 84 CITIES

THE series of charts on pages 444 through 450 show the foreclosure rate in 84 cities. In making this study we have taken the actual number of foreclosures in each city, corrected these figures to eliminate seasonal variations, and put the corrected figures on an index basis. For this reason the charts show the fluctuations of the foreclosure rate rather than the number of foreclosures.

The original figures include all foreclosures of the county in which the cities are located. Therefore, most of the cities have a few farm foreclosures included in their totals. Farm foreclosures, however, contribute very little to the figures used in this study.

The only instance where farm foreclosures played an important part in the total is in Jacksonville, Florida, where during the first seven months of 1945 they made up 25 per cent of the total Jacksonville foreclosures.

Average length of time necessary to foreclose, average foreclosure expense, redemption period, and method of foreclosure are also shown on the charts. The time necessary to foreclose and foreclosure expense will vary considerably, particularly foreclosure expenses which include legal fees.

In certain sections of the country where foreclosure time is particularly long, the practice of making contract sales has developed. This device circumvents the long foreclosure proceedings by setting forth the condition of the sale in contract form and withholding title from the purchaser until the terms of the contract are met. In case of payment default, the contract becomes voidable and no foreclosure is necessary because the title has not changed hands.

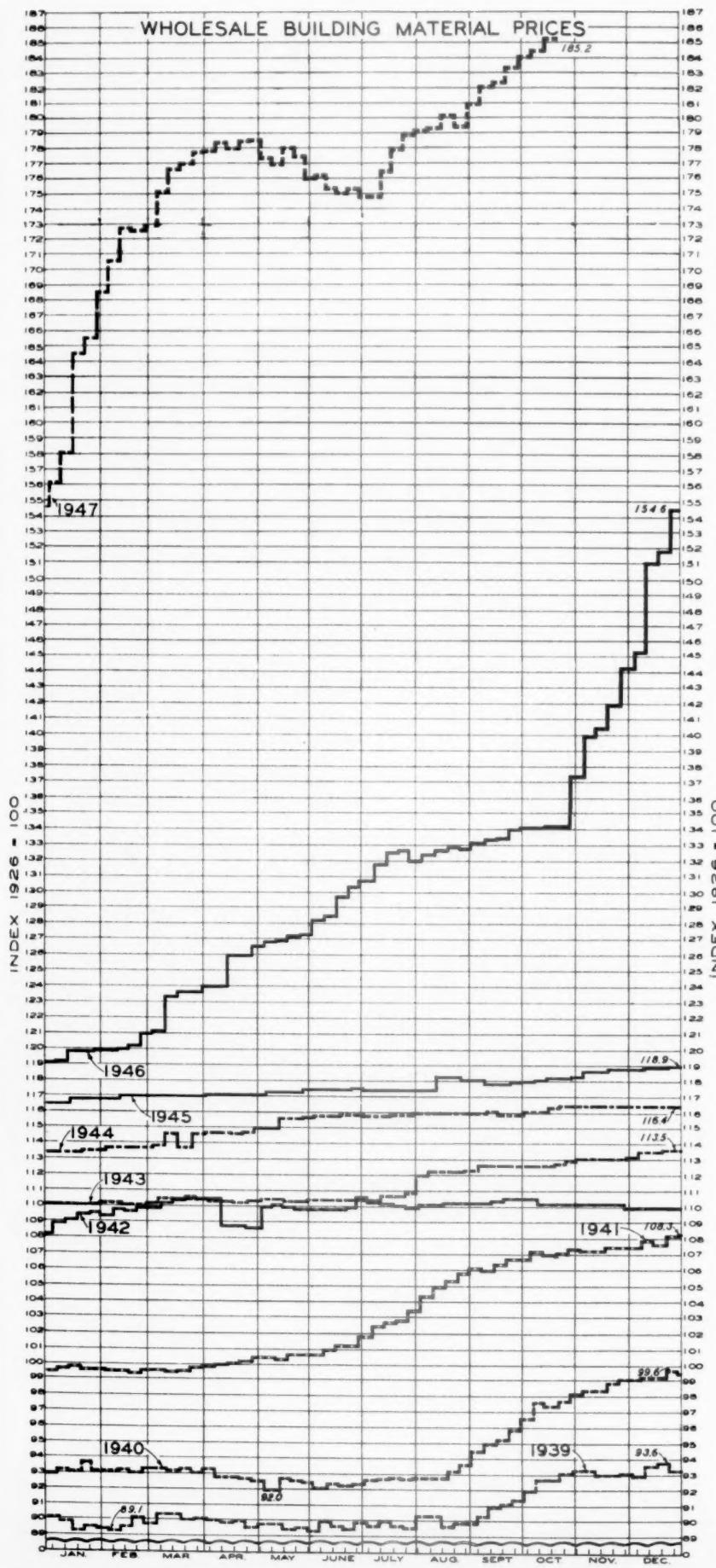
In areas where this method of transfer is used, the foreclosure rate should be lower and show less violent fluctuations than those areas in which mortgages and deeds of trust are used in property transfers.

It is well to remember that the charts are on an index basis and that the comparison between cities should be made on the basis of whether the trends are up or down and not on a basis of whether one city has more or less foreclosures than another. The same is true when comparing each city with the national average.

We have segregated the cities into three groups - 500,000 and over, 250,000 to 500,000, and 250,000 and less - and have taken a foreclosure average for each group. The individual charts, therefore, show foreclosures in each city (in blue), and the foreclosure average for cities of the same size (in red). The national average chart shows the averages of these three groups on a single chart. It should be noted how closely foreclosures in the three groups of cities follow each other, demonstrating that the size of the city has little, if any, effect on the foreclosure rate. For the most part foreclosure activity has been very sluggish for the past several years. This period of sluggishness is apparently nearing an end, and the foreclosure rate should begin to rise slowly sometime during the next year. For this reason we will bring these charts up to date every six or eight months.

Every effort has been made to make this study as complete as possible; however, we will continue to supplement and enlarge the present data at every opportunity.

WHOLESALE BUILDING MATERIAL PRICES



IN view of the continuing rise in wholesale building material prices, it may be of interest to see what the behavior of wages has been since the beginning of the war.

From 1940 to September 1947 hourly wages in the lumber industry have risen 105 per cent; hourly wages in the stone, clay and glass industries have risen 85 per cent; and hourly wages in the wholesale trades have risen 70 per cent. In this same period, 1940 to September 1947, the wholesale building material price index rose from 93 to 180, or an increase of 93-1/2 per cent.

In addition to the increased wages in the various industries, there has been a decline in output per man hour. While latest figures are not available, the following data may be revealing. From 1940 through 1945 there was a decline of between 11 and 13-1/2 per cent in output per man hour in the major building material industries.

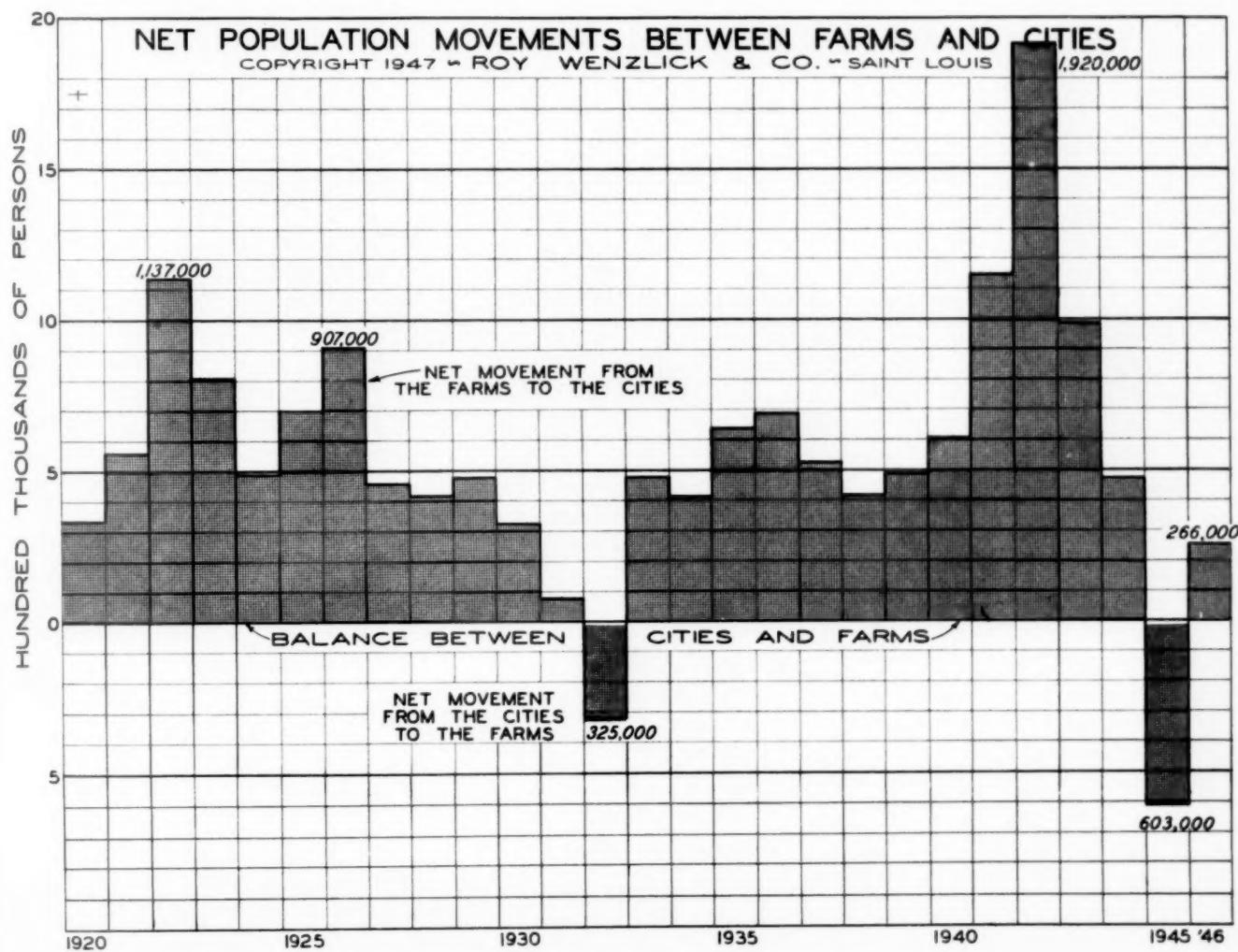
The outlook seems to be for a sideways movement with possibly a slight upward drift until at least the middle of 1948. If small decreases take place, they will probably be offset by the coming increase in freight rates.

BACK-TO-THE-FARM MIGRATION

THE greatest "back-to-the-farm" movement in the last 25 years took place in 1945. In that year, 603,000 more people left the cities to go on farms than left farms to enter the cities. This movement was expected, as V-J Day brought to a close the manufacture of war materials and literally hundreds of thousands of war workers reconverted to the harrow and the plow. Until quite recently, these final figures on the farm movement have not been available, and the large gains in farm population will come as a surprise to most city dwellers who find their cities still crowded.

In 1942 as the defense workers came into the cities to take war jobs at high wages, the migration to the cities from the farms reached its peak, when the net movement totaled 1,920,000 persons. This is shown by the chart below which shows net movement each year from 1920 through 1946. By net movement we mean the difference between the number of people moving from farms to cities and the number moving from cities to farms.

The figures charted represent only changes through civilian migration. If losses to the armed forces are added to the peak of 1,920,000 in 1942, the total loss in farm population for that year is 2,779,000. Net losses due to inductions were 211,000 in 1941, 859,000 in 1942, and 505,000 in 1943.



REAL ESTATE HOLDINGS OF BANKS IN THE UNITED STATES

After reaching a peak in 1936 to 1938, the amount of real estate held by banks began to decline, slowly at first, then, as the housing shortage became apparent, more precipitously as the banks entered the seller's market to dispose of their holdings.

The latest figures on national banks are for June 1947, while the figures on other banks end with December 1946. When more recent figures become available, they will undoubtedly show that real estate held by banks (exclusive of the banking premises) has fallen still farther. This trend may be expected to continue until the real estate cycle shifts into a more rapid decline, bringing with it an upturn in the foreclosure rate.

The two solid lines show how, following the First World War, banks began to acquire a considerable amount of real estate. Following the crash in 1929 the rate of acquisition began to accelerate sharply, sparked almost entirely by foreclosures.

The values shown by the two dotted lines include all real estate owned by national and other banks, including the premises of the banks and their furniture and fixtures.

The solid lines show the value of banks' real estate holdings exclusive of the grounds, building, furniture and fixtures occupied or used in carrying on the bank's business.

This chart has nothing to do with mortgages held by banks; it deals only with real estate owned outright.

In reading the chart below, attention should be given to the two scales used. On the left is the scale to be used in reading the amount of real estate holdings of national banks, and the scale to the right is used to read the amount of real estate holdings of other banks.

